



THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D. C. 20301-1200

HEALTH AFFAIRS

JUN 14 2002

The Honorable Bob Stump  
Chairman, Committee on Armed Services  
House of Representatives  
Washington, DC 20515-6035

Dear Mr. Chairman:

The enclosed report responds to the Senate Armed Services Committee Report (106-292) requesting the Secretary of Defense to submit a report on health care benefits for retirees living overseas. This report includes the Department's assessment regarding the feasibility of options for providing health care benefits to retirees living outside the United States. I regret the report could not be completed by the originally requested date of March 12, 2001.

The TRICARE Management Activity (TMA) chartered an Integrated Process Team (IPT) charged with evaluating access to health care overseas and developing options aimed at maximizing the availability of the TRICARE benefit to Military Health System beneficiaries worldwide, to the greatest extent feasible. This report describes the results of that evaluation including the background and analysis.

Thank you for your continued interest in the Military Health System.

Sincerely,

William Winkenwerder, Jr., MD

Enclosure:  
As stated

cc:  
Representative Skelton  
Ranking Democrat

U.S. COMMITTEE ON

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## **Report to Congress**

### **Health Care Benefits for Retirees Living Overseas**

#### **Background:**

As part of the Fiscal Year 2001 National Defense Authorization Act, the Senate Armed Services Committee Report 106-292 requested the Department of Defense (DoD) to conduct a study of and report on the desirability and feasibility of providing additional health care benefits to military retirees living outside the United States, beyond the benefits currently offered. At the same time, the Office of the Assistant Secretary of Defense for Health Affairs (OASD(HA)) chartered a work group to evaluate access to health care in overseas locations and develop options aimed at maximizing the availability of the TRICARE benefit to Military Health System (MHS) beneficiaries worldwide, to the greatest extent feasible.

Currently, retirees and their families residing overseas enjoy a comprehensive health insurance benefit—TRICARE Standard. These beneficiaries are also eligible to use DoD Military Treatment Facilities (MTFs) for their care, on a space-available basis. Retirees and their family members living overseas have not been offered the opportunity to enroll in TRICARE Prime. Overseas military medical staffing has been based on the readiness requirement to support active duty service members and their families. In addition, the high operations tempo and frequent deployments of medical personnel from overseas installations further limits the capabilities of medical personnel to expand their patient population without compromising access to care for the service members and their families.

On October 1, 2001, the TRICARE for Life benefit was implemented worldwide and provides TRICARE coverage to retirees, their family members, and survivors, who are age 65 and over, secondary to Medicare. In locations where Medicare coverage exists, (i.e., Puerto Rico, Guam, and the U.S. Virgin Islands), Medicare eligible retirees age 65 and over will enjoy the same benefit as eligibles in the United States. Since Medicare does not provide coverage for health care services delivered outside of the United States and its territories, TRICARE will serve as first payer for beneficiaries age 65 and over residing or traveling overseas under the following conditions:

- The beneficiary is enrolled in Medicare Part B  
TRICARE Standard coverage limitations will apply with appropriate deductibles and co-payments  
TRICARE will be second payer to other health insurance coverage, such as private health insurance or the host nation health coverage, unless specifically prohibited by pertinent host nation laws

The Department of Defense has also implemented “TRICARE Plus” an enrollment program which permits beneficiaries who do not or cannot enroll in TRICARE Prime with the opportunity to affiliate with a military primary care provider. TRICARE Plus is offered at some overseas locations.

### **Assessment of The Retiree Population Overseas and Their Access To Care:**

DoD has collected data from various sources, to include the Defense Enrollment and Eligibility Reporting System (DEERS), the overseas Lead Agents, and the Services’ overseas MTFs, in order to assess demographic information about retirees overseas, their access to care, MTF capacity, reliance on the MHS, and the availability of quality health care services in host countries.

According to the Defense Manpower Data Center, there are 36,873 retirees registered with a foreign residence, with the largest concentrations distributed as follows:

Country	Number of Retirees
Puerto Rico	8,782
Germany	7,978
Philippines	3,411
United Kingdom	2,725
Japan	2,615
Guam	1,896
South Korea	1,581
Italy	815
Spain	694
Canada	682

In addition, there are 42,817 retiree family members and survivors residing overseas, bringing the total retiree beneficiary population to 79,690. Although consistent data is not available across the Services regarding the retirees’ home of origin, enough data was available to determine incidence rate based on “Home of Record” and place of birth. A cross reference of these factors with the overseas retiree database, provided clear indication of locations where overseas residents returned to their home of origin. Four of the top five locations are U.S. Territories, specifically:

- Puerto Rico
- Guam
- American Samoa
- U.S. Virgin Islands
- Philippines (not a U.S. Territory)

As previously mentioned, retirees and their family members are currently eligible for worldwide coverage under the TRICARE Standard option, with beneficiaries age 65 and over receiving TRICARE coverage as secondary payer to Medicare in the U.S. Territories, and as primary payer in other overseas locations. Although not currently eligible for enrollment in Prime, retirees and their families living close to some MTFs overseas enjoy reasonable access to primary care in DoD MTFs. Greater impediments to timely access exist for specialty care in MTFs. Nonetheless, many retirees who are regular users of MTF care, often prefer to be placed on waiting lists and still receive their care within the MHS.

For care received outside the direct care system, overseas utilization is low as indicated by the low number of TRICARE Standard claims for this category of beneficiaries. In Puerto Rico for example, the country with the largest number of retirees and families, TRICARE Standard costs amount to only about \$1 million per year. Contributing factors to the low reliance rate on TRICARE Standard include:

- Many retirees qualify for coverage under host-nation health care plans as a result of marriage to a foreign national
- Many retirees have Other Health Insurance through their employer (the US Government or private corporation)
- Good access to MTF care
- Reluctance to use host-nation medical services ahead of DoD facilities

### **Options for Enhancing Health Care Benefits to Retirees Overseas**

DoD considered the following options for enhancements to the existing health care benefit for retirees residing overseas:

#### **Option A: Limited Expansion of TRICARE Prime at MTFs in certain U.S. Territories, specifically Puerto Rico and Guam.**

Expansion of TRICARE Prime eligibility to retirees and their families would need to be accomplished without adversely affecting access to care at MTFs by active duty members and their families. TRICARE Prime for retirees in U.S. Territories could be based on a modification of Prime with the following main features:

- Prime could be offered only in MTF service areas and not in “remote” locations
- Participants could pay an annual enrollment fee of \$230 per member or \$460 per family
- Normal TRICARE Prime co-pays could apply
- Enrollment could not be offered to Medicare eligible retirees age 65 and over until such benefit is made available to retirees MHS-wide, to include those residing in the United States

**Option B: Expansion of TRICARE Prime at MTFs in remaining overseas areas serviced by MTFs:**

Given the existing access to some MTFs, it is unclear whether retirees would be willing to pay an enrollment fee and co-pays associated with Prime for essentially the same level of access, unless they fear being shut out of the MTFs or plan to use their benefit while stateside. The main features for program implementation as outlined in Option A would also apply under this option.

Some overseas MTFs could accommodate additional enrollees and are providing primary care to these beneficiaries today, although this may be affected in the future by Service staff reductions. At smaller MTFs, care would likely be limited to primary care and a few specialties, with the remainder having to be referred to host nation providers—as also exists today. TRICARE does not have an overseas managed care support contract to create networks or provide support, such as staffing of TRICARE Service Centers. Additional staffing would be required to support enrollment of retirees and their families. The additional workload and performance of new tasks (e.g. billing and collection of enrollment fees) would require management support contracts. In addition, the existing contract for the processing of overseas TRICARE claims would require a modification.

**Option C: Expansion of TRICARE Prime to Civilian Primary Care Providers in certain U.S. Territories, specifically Puerto Rico, Guam, and the U.S. Virgin Islands:**

This option has many unknown factors, (i.e., people not currently reliant on the system, unknown response from retirees who utilize TRICARE Standard, ability to establish networks, and total costs). These territories represent three of the top five locations of overseas retiree residences. Further, the limitation to only U.S. Territories avoids some of the greater difficulties in establishing civilian primary care provider networks in other countries. Nonetheless, this option would entail increased cost to the government. Since Medicare coverage does extend to the beneficiaries in these Territories, TRICARE will be second payer for the beneficiaries age 65 and over. TRICARE Plus remains an attractive option for beneficiaries in these locations. A Federal Employee Health Benefits Plan (FEHBP) Demonstration is currently available in Puerto Rico for retirees and their family members over age 65. Additionally family members under the age of 65 whose sponsor is age 65 or over are also eligible for FEHBP. This legislated demonstration ends December 2002. Puerto Rico may be one site that warrants consideration for a Prime demonstration site, however, a change to the Code of Federal Regulations would have made for a Prime program.

**Projected Costs:**

OASD(HA) requested an Independent Government Cost Estimate to evaluate the possibility of each recommended option from a financial perspective. Two separate options were evaluated:

**Option A: Limited Expansion of TRICARE Prime at MTFs in certain US Territories, specifically Puerto Rico and Guam:** Due to the low reliant rate on the MHS and TRICARE Standard claims experience, the estimated implementation costs of Prime are projected to be:

Estimated Healthcare Costs:	\$ 1.7M
Administrative Costs:	\$ 150K
Minus Collection of Enrollment Fees:	<u>(\$ 400K)</u>
<b>Projected Total Program Costs:</b>	<b>\$1.45M*</b>

**Option B: Expansion of TRICARE Prime at MTFs in remaining overseas areas serviced by MTFs:** The estimated implementation costs of Prime in other locations outside the U.S. Territories are:

Estimated Healthcare Costs:	\$ 4.8M
Administrative Costs:	\$ 795K
Minus Collection of Enrollment Fees:	<u>(\$ 4.8M)</u>
<b>Projected Total Program Costs:</b>	<b>\$ 795K*</b>

\* The most significant variable in these costs estimates is the unpredictability of the bona fide attraction to TRICARE Prime on the part of the people not currently reliant on the system and the reliant retiree population, making the process of arriving at accurate estimates rather difficult. Additionally, enrollment fee projections will fluctuate depending on the actual enrollment response and total program implementation costs may vary due to this. Enrollment fees collected are lower in option A because there is limited capacity in the MTFs to support enrollment.

**Option C: Expansion of TRICARE Prime to Civilian Primary Care Providers in certain U.S. Territories, specifically Puerto Rico, Guam, and the U.S. Virgin Islands:** This was another option examined but not deemed viable at this time due to many unknown factors, (i.e. people not currently reliant on the system, unknown response from retirees who utilize TRICARE Standard, ability to established networks in countries, and total costs).

## **Conclusion**

Retirees residing overseas are already covered under TRICARE Standard and many enjoy good access to health care in the MTFs. In those locations where TRICARE Plus will be made available (based on primary care capacity), retirees will be able to enjoy a more formalized relationship with military primary care providers. Given the primary mission of the Department of Defense Military Health System, and the limited military health care providers in overseas locations, the most recent benefit expansions are considered sufficient to meet most retiree health coverage requirements overseas.

The establishment of TRICARE coverage for the Medicare-eligible population significantly expands coverage and reduces personal financial liability when utilizing host-nation health care providers. The reduction in the retiree catastrophic cap for TRICARE Standard beneficiaries

from \$7,500 to \$3,000 per family per year further reduces out-of-pocket expenses for retirees both overseas and in the United States. The establishment of the TRICARE Plus program provides overseas retirees, who currently enjoy a DoD primary care provider relationship, an opportunity to formalize that relationship through enrollment. Finally, the primary mission and ability to meet theater operational requirements—significantly increased since the attacks of September 11<sup>th</sup>—are not impeded by the current approach to retiree care.

Thus, the status quo provides optimal flexibility to both the TRICARE Plus enrollees and the overseas military health care providers in the event of contingency, forward deployment or other military readiness requirements. It also preserves the focus on meeting access to care standards for the active duty service members and their families who are assigned by DoD to serve in an overseas location.